

# Sustainability Analysis of Fire Insurance Companies in Indonesia: The Policy Endorsement Underwriting Process <sup>†</sup>

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**Abstract:** This study aims to determine the right strategy for fire insurance companies. This study also discusses policy endorsement in underwriting process. The research method uses descriptive qualitative analysis and SWOT analysis. This research was conducted by collecting data consisting of primary and secondary data. The total score of the IFE matrix is 2.87. The EFE matrix is 3.342. The endorsement policy is in cell II (grow and build). The strategy that can be applied is an intensive strategy which includes market penetration, market development and product development. It also uses an integrated strategy that includes backward integration, forward integration, and horizontal integration.

**Keywords:** SWOT analysis; intensive strategy; integrated strategy; fire insurance; endorsement policy

## 1. Introduction

General insurance has benefits for the insurance company and the insured person or policyholder. The benefit for the company is the profit from the premium given by the insured or the policyholder. And the benefit for the insured or policyholder is that peace of mind is provided for the future, minimizing property losses if a risk occurs. Insurance has special requirements, for collecting premium funds from the company or policyholders, within the underwriting process [1]. Underwriting, according to the technical instructions of the insurance company, is the process of selecting risks or identifying risks that can occur by the prospective insured.

Underwriting can also be referred to as risk selection, which is an insurance risk management function in charge of the selection and classification of risks owned by individual or group insurers [2]. The process of identifying the risk of the insured candidate occurs through collecting information about material facts related to the object of coverage. In this process, the risks are selected based on the risks that often occur. Meanwhile, the person who evaluates various risks and determines whether the insurance application letter is accepted or not is called the underwriter. During the insurance period, if the data of the insured or policyholder and the object of the insured changes, the insured or policyholder can apply for a policy endorsement. Almost every process in the insurance value chain is being revolutionised by technological innovations [3].

Another thing that is contained in the technical instructions is policy endorsement; namely, changes in data on insurance policies caused by changes in the insured's data or object of coverage, so that additional premiums and administrative fees will be charged or only administrative fees will be charged. In the policy endorsement process, it is necessary to carry out stages such as the double check of the no. of insurance policy, Insured subject's name, the insured's risk address and period of coverage, and the total sum insured. In addition, the insured who wants to do a policy endorsement must complete the personal data required by the company. If the required data is incomplete or incorrect in the policy



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endorsement process, the process may be delayed or pending by the underwriter. The cost to the customer and communication have significant impact on insurance sale [4]. Purchase of insurance also depends on the age of the customer. The youngest households would have increased their consumption insurance even further, while the oldest households would have had less consumption insurance [5].

Based on the background, the author is interested in discussing knowing the company's position and planning the right strategy for the future of the fire insurance company. Some of the insurance firms fail to implement in Nigerian [6]. Insurance companies also depend on their employees. Claims professionals are also responsible for providing the best service for the benefit of policyholders [7]. This study also discusses the underwriting process of fire insurance in the case of policy endorsement.

## 2. Materials and Methods

The types of data used in this research are qualitative and quantitative data. Qualitative data are expressed in the form of words, text, photos, images, sound recordings, and so on, and quantitative data by distributing questionnaires in determining the weight of the matrix. Sources of data in this study were obtained from all employees at the insurance company. In writing policy endorsements, SWOT Analysis was used with a SWOT Matrix. The I–E matrix is used to find out the company's position when planning the right strategy in the future. This research was conducted using a descriptive study approach by collecting data consisting of primary data and secondary data. According to Umar (2001), an internal factor evaluation (IFE) matrix is used to determine the company's internal factors related to strengths and weaknesses that are considered important. The external factor evaluation (EFE) matrix is used to determine the company's external factors related to opportunities and threats.

### *Internal–External (IE) Matrix*

The internal–external (IE) matrix was developed from the general electric model (GE-model). The parameters used include the parameters of the company's internal strengths and the external influences faced. Umar (2001) suggests that the internal–external matrix consists of two dimensions, namely the total score of the IFE matrix on the X axis and the total score of the EFE matrix on the Y axis. The I–E matrix is useful for positioning a company's SBU (strategic business unit) in a matrix that consists of 9 cells. On the X axis of the IFE matrix, there are three scores:

- a. A score of 1.0–1.99 states that the internal position is weak,
- b. A score of 2.0–2.99 states that the position is average, and
- c. A score of 3.0–4.0 states that the position is strong.

In the same way, on the Y axis, used for the EFE matrix:

- a. A score of 1.0–1.99 is low,
- b. A score of 2.0–2.99 is moderate, and
- c. A score of 3.0–4.0 is high.

The I–E matrix has three distinct implications:

- a. The SBU located in the cell I, II or IV can be described as grow and build. The strategies that are suitable for this SBU are intensive strategies, called so because they are carried out by mobilizing various intensive efforts on the condition that the company can improve its competitive position with the current endorsements. Intensive strategies are divided into three categories:
  - (1) Market development, i.e., introducing insurance products or adding existing coverage to new markets, so that the insured person is interested in doing endorsements,
  - (2) Product development, a strategy that is carried out to increase sales by improving or modifying existing products, and

- (3) Integrated strategy, i.e., backward integrations and the supervision of products. Going forward, the company has a great ability to control products and horizontal integrations, and the company increases its control over other competitors.
- b. The SBU located in cells III, V or VII is best controlled using hold and maintain strategies. Commonly used strategies are as follows:
  - (1) Market penetration, i.e., introducing a new product at the insurance company, and
  - (2) Product development, i.e., modifying existing products by developing products or extending warranties.
- c. The SBU located in cell VI, VIII or IX can use the harvest strategy in this position; the market share is high, so cash inflows are large, and market growth is low. For the divestiture strategy, the market share is low so that cash inflows are small; market growth is also low. In this strategy, there is no opportunity for investment and also unable to compete.

The SWOT analysis used in this study is intended to develop strategies to maximize strengths and opportunities and minimize weaknesses and threats. The strategic decisions that are carried out must also be linked to the vision, mission, and goals of the institution. SWOT analysis is useful for finding profitable opportunities.

### 3. Result and Discussion

SWOT analysis for underwriting an endorsement of the insurance company's policy uses a matrix of internal factors (IFE) and external factors (EFE).

#### 3.1. Internal Factors (IFE)

The IFE matrix is used to find out how big the role of internal factors in the company is. The IFE matrix is prepared based on the identification of the company's internal environmental conditions in the form of strengths and weaknesses.

##### 3.1.1. Strength

Strength describes what the company has, and if it can provide a competitive advantage for the company itself. Based on the analysis that has been obtained, several strengths are owned by the insurance company in the endorsement of fire insurance policies. The findings reveal that companies engage in human resource development which improves employee attitudes to work, even though there is a high rate of employee turnover with age [8]. These strengths include:

- (1) A good underwriting service,
- (2) Good relations with brokers, agents, and bank assurance brokers and agents,
- (3) Awards that improve image and good position,
- (4) Quality human resources (HR) and
- (5) A good management system.

##### 3.1.2. Weaknesses

Weaknesses describe things that the company does not have, but other companies have. Based on the analysis that has been done, it is observed that several weaknesses exist in the insurance company in the endorsement of the fire insurance policies: lack of a tracker System for the underwriting process; the principle of "the customer is always right" sometimes causing pressure; and often, the insured will do various ways to speed up the approval of the insurance policy. Table 1 explains the score from the IFE matrix which contains the strengths and weaknesses of the policy endorsement in this company. The weight value is obtained from the company's expert, the rating is obtained from the results of the questionnaire survey. The score is a multiplication between the weight and rating. The total score for the IFE matrix is 2.87.

**Table 1.** IFE underwriting endorsement policy matrix.

Strength	Weight	Rating	Score
Good underwriting service	0.3	3	0.9
Fostering good relations with brokers, agents, and bank assurance	0.15	3.5	0.525
Awards that can improve image and good position	0.14	3.7	0.518
Quality human resources (HR)	0.1	3	0.3
Good management system	0.1	2	0.2
Weaknesses			
Lack of tracker system for underwriting process	0.135	2.2	0.297
The principle of “the customer is always right” sometimes resulting in pressure	0.075	2	0.15
	1		2.87

### 3.2. External Factors (EFE)

The EFE matrix is used to determine how big the role of the external factors contained in the company is. The EFE matrix is prepared based on the identification of the company’s external environmental conditions in the form of opportunities and threats.

#### 3.2.1. Opportunities

Opportunity is a factor that comes from the environment and is profitable for the company if it can take advantage of it. Based on the analysis that has been done, several opportunities can be utilized by the insurance company, namely:

- (1) Increased awareness of the importance of the role of insurance for organizations and individuals, giving greater meaning to insurance companies to increase market share,
- (2) Various disasters that have befallen Indonesia,
- (3) The lack of substitute product,
- (4) The obligation to insure assets that become collateral for bank debtors. Bank policyholders who apply for credit (debtors) are required to provide collateral as a guarantee that the money borrowed will be returned. Every collateral guaranteed must be insured. In general, 80% of policyholders pledge their property,
- (5) The decree issued by the Minister of Finance of the Republic of Indonesia, No. 424/KMK.06/2003, concerning the financial health of insurance and reinsurance companies in Indonesia,
- (6) Developments in information technology
- (7) Government regulation Number. 63 (1999), regarding the minimum Capital Liability of 100 billion rupiah.

#### 3.2.2. Threats

Threats are factors that come from outside the company that must be overcome to reduce the impact of harm to the company. The regulators and insurers should focus on creating an environment that supports ethical behavior [9]. Based on the analysis that has been carried out, several threats faced by the insurance company in reducing losses are observed, namely:

- (1) Increased market potential and increased competition,
- (2) Development of management systems and self-development for sales,
- (3) Improved marketing services,
- (4) Increasing bad credit,
- (5) High levels of competition,
- (6) Increased risk-based capital (RBC).

Public policy is shaping the way insurance is designed and provided: directly through regulation such as mandating coverage or instigating the development of new schemes; and

indirectly by providing the enabling infrastructure and environment [10]. After obtaining the weight and rating, a score can be obtained by multiplying the weight by the rating, which can be seen in the Table 2. The EFE matrix in Table 2, the total score is 3.342.

**Table 2.** EFE endorsement policy matrix.

Opportunities	Weight	Rating	Score
Increased awareness of the importance of the role of insurance for organizations and individuals, giving greater meaning to insurance companies to increase market share.	0.1	3.4	0.34
Various disasters that have befallen Indonesia recently	0.08	3	0.24
Lack of substitute product	0.08	2.2	0.176
Obligation to insure assets that become collateral for bank debtors	0.08	3.7	0.296
Decree issued by the Minister of Finance of the Republic of Indonesia, No. 424/KMK.06/2003, concerning the financial health of insurance and reinsurance companies in Indonesia	0.08	4	0.32
Information technology development	0.06	4	0.24
Government Regulation (PP) No. 63 (1999) concerning the minimum paid-up capital requirement of 100 billion rupiah	0.07	3	0.21
Threats			
Increased market potential and increased competition	0.095	4	0.38
The self-development management system through training for marketers or sales people continuing to increase	0.08	3	0.24
Improved marketing service	0.07	4	0.28
Increased bad credit	0.07	2	0.14
High levels of competition	0.06	3	0.18
Increased risk-based capital (RBC)	0.075	4	0.3
	1		3.342

### 3.3. Internal–External (IE) Matrix

The IE matrix is a combination of the IFE and EFE matrices which are mapped in two dimensions, namely, the total weighted score of the IFE matrix on the vertical axis and the total weighted score of the EFE matrix on the horizontal axis in Figure 1. The IE matrix is used to determine the company’s position. Based on Figure 1, the results of internal factor analysis using the IFE matrix, the total weighted score is 2.87; meanwhile the results of the analysis of external factors using the EFE matrix obtained a total weighted score of 3.342.

Based on the two scores, the insurance company is in cell II (grow and build). The strategy that can be applied is an intensive strategy which includes market penetration, market development, product development and an integrated strategy that includes backward integration, forward integration and horizontal integration.

### 4. Conclusions

The SO strategy, therefore, should be to maintain the quality and quality of service, improve distribution efficiency and reach out to the community of conscious insurance through cooperation with other insurance companies, brokers and banking players The company should increase its attractiveness to policyholders through a fast underwriting process. The WO strategy that must be carried out is to increase product efficiency, seek development and training, and maintain a position as a market leader. The ST strategy should be to provide services that satisfy, i.e., through the process of Underwriting short to attract the interest of policyholders increase the volume of business and improve the quality of company performance through improving the quality of products and services. The WT strategy should be to create a tracker system for the underwriting process, and pay more attention to the quality of service provided to consumers.

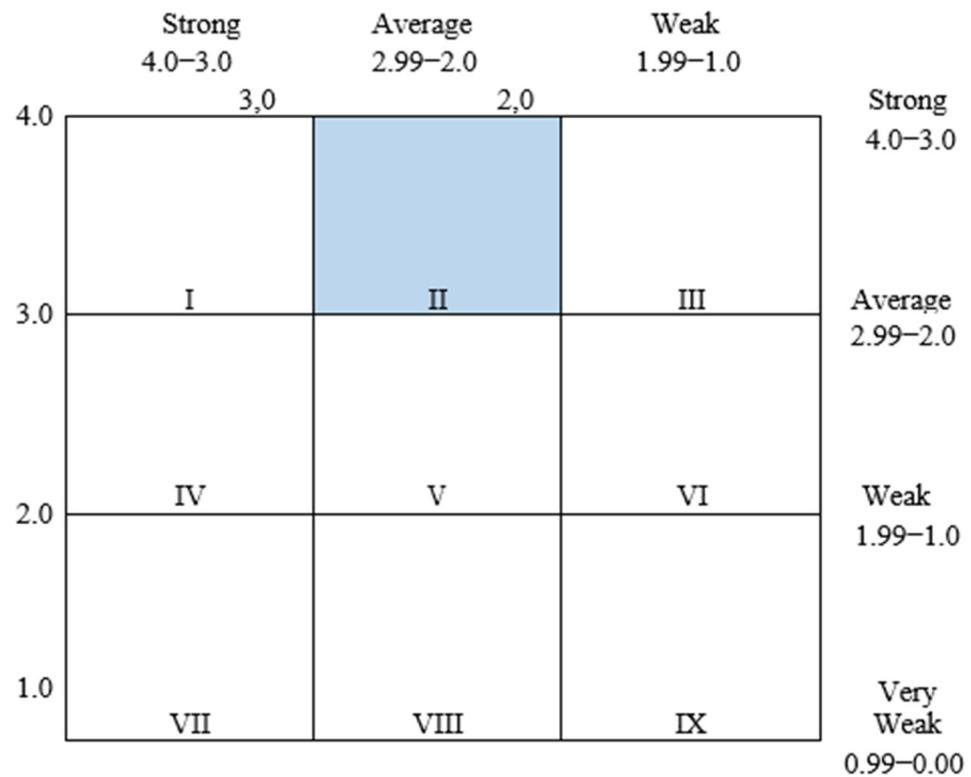


Figure 1. Internal-External (EI) Matrix.

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